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*Just
We have had
coming.
See if there is a
perspective in the
President's report
JB*

COLES the book people!

Coles Book Stores Limited Annual Report 1975

FOR FISCAL YEAR ENDING JANUARY 31, 1975







COLES BOOK STORES LIMITED

Head Office

90 Ronson Drive
Rexdale, Ontario
M9W 1C1

Distribution Facilities

Canada — 90 Ronson Drive, Rexdale, Ontario
United States — 105 Benbro Drive, Cheektowaga, New York

Subsidiaries

Coles Publishing Company Limited
Coles the book people! Inc.

Directors

Carl C. Cole
Jack Cole
George French
David S. Cole
Ross L. Butters
Peter K. Draimin
Theodore P. Cole
Bruce D. Cole

Officers

Carl C. Cole, *Chairman*
Jack Cole, *President and Chief Executive Officer*
George French, *Executive Vice-President*
David S. Cole, *Vice-President, Merchandising*
Harold B. Fenn, *Vice-President, Store Operations*
Geoffrey R. Matthews, *Vice-President, Purchasing*
George B. Thiel, *Vice-President, Finance & Treasurer*
Abraham Collis, *Secretary and Comptroller*

Transfer Agent and Registrar

Canada Permanent Trust Company

Auditors

Soberman, Isenbaum, Colomby & Nisker

Bankers

Canadian Imperial Bank of Commerce

Solicitors

McCarthy & McCarthy

Stock Exchange Listings

The Toronto Stock Exchange
The Montreal Stock Exchange

Report for the year ended January 31, 1975
Annual Meeting of the Shareholders, June 12, 1975

To the Shareholders:

Our second year as a public company has set new records in sales and earnings despite uncertain economic conditions. Coles, for many years Canada's largest bookseller, has now taken an even more commanding position in the book retailing industry of Canada.

Recent figures, released by Statistics Canada, show that in 1974 book and stationery sales increased more than any other retail commodity in this country. Recognition once again that here is a stable industry readily adaptable to prevailing conditions. We nevertheless remain sensitive to changing business circumstances that may require operational adjustment.

Sales of company and associate stores rose by 36.3 percent from \$16,077,000 to 21,911,000. After tax earnings increased by 31.6 percent from \$819,000 to \$1,078,000, this was achieved despite the temporary corporate surtax introduced by the Federal Government in November 1974, retroactive to May 1st, 1974. Per share earnings for the period advanced from 56¢ to 74¢.

During the 12 month interval your company continued its expansion, adding 21 stores to the chain. At the end of the fiscal year 93 stores were in operation, 83 in Canada and 10 in the United States. Expansion will continue in 1975 with 24 new locations already leased.

In keeping with our policy of discontinuing the franchise system, the number of Associate stores was reduced from 13 to 7 with a further reduction expected during 1975.

During the year we introduced an exciting new concept to the North American book retailing scene. The prototype

of an entirely new chain of book stores, "Paper•bax", was opened in the Burlington Mall, Burlington, Ontario. Several years of planning have gone into this unique concept, both in choice of merchandise and store design. These all-paperback book stores have spectacular interiors, incorporating bright acrylics, glittering chrome, well defined graphics and vivid lighting; the unusual decor is ideal for the mass merchandising of paperbacks to the impulse shopper. Prompt public acceptance of this unit has been most encouraging. Several more Paper•bax will open in the next few months.

We were pleased to be awarded the book concession in the new Montreal International Airport in Mirabel, Quebec. Our first airport location, Mirabel was won over competitive bids from many other booksellers. This store will feature a selection of books in many languages to satisfy the needs of international travellers.

Much controversy has resulted from our policy of providing the best in books at the lowest possible prices. Many Canadian works by Canadian authors are available in fully licensed foreign editions at considerably lower prices than the same titles published in Canada. Coles has purchased and imported, under the Canadian Copyright Act, a number of these inexpensive books for resale at substantial savings to the Canadian public. Self-serving attempts by some Canadian publishers to seek hasty amendments to our copyright laws, to avoid competitive embarrassment, gained considerable publicity. Fortunately these attempts were unsuccessful.

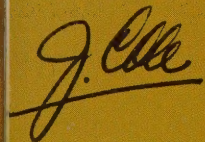
93
17
110

the president's report

The success of any business is a reflection of the cumulative interests, efforts and co-operation of its people. In recognition of our employees and their contribution to the continuing success of your company, a constructive benefit programme has been introduced on their behalf. In creating a secure and stable environment for our employees we have discharged a corporate obligation in a manner that must inevitably benefit Coles.

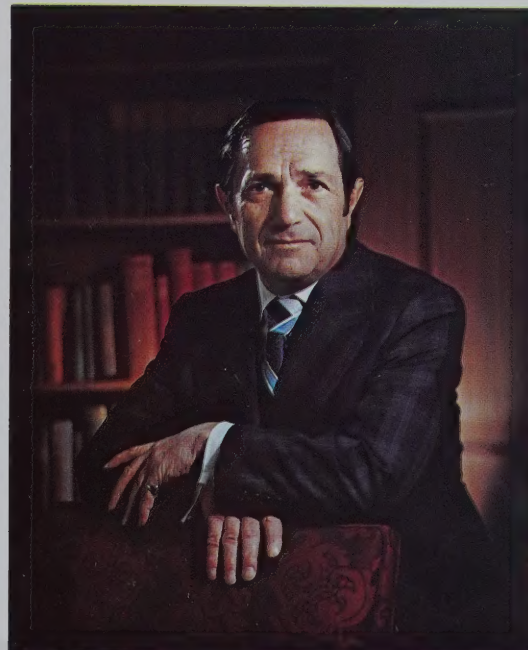
Coles Publishing Company continues to make increasingly important contributions to the profitable operations of our company. Through actual experience in our stores this subsidiary is in the extremely favourable position of being able to determine those subjects most in demand. With obvious advantages gained through such accurate information, publishing the appropriate titles is relatively straight forward. Sales in our stores are assured at virtually no risk.

Our thrust into new markets in both Canada and the United States will continue. We have every confidence that your company will enjoy increased sales, earnings and growth through the new fiscal year. To the many Coles employees, customers and shareholders who made possible our corporate performance we extend our appreciation and our thanks. On behalf of the Board



Jack Cole,
President and Chief Executive Officer

Toronto, May 1975.



STABILITY

The financial community looks for assurances of stability in a public company. There are several to be found in examination of Coles organization. While there can be no absolute guarantees in the business world, Coles has proved by its own record that bookselling can survive and prosper through the most difficult economic periods. The company's beginning was in the bottom years of the Great Depression, and its growth continued unabated through several economic cycles of varying severity.

Bookselling is much less vulnerable than most industries to economic downturn. Coles' 42-year experience has been that its business adapts to the times. Two constants prevail in the bookseller's favour: one is the entertainment factor that makes reading an inexpensive recreational choice; the other is that when hard times or inflationary pressures threaten, there is a predictable surge in demand for self-help, do-it-yourself reading matter. This is happening now, as soaring costs of home and appliance repairs and maintenance make themselves felt.

PUBLISHING

Coles Publishing Company reflects the aura of expansion that pervades the Coles group. The company is maintaining a cultural contribution with its Canadiana Collection, which now has 92 titles. Coles Notes continue to be sold at home and around the world, to students in some 78 countries who find them invaluable study aids.

But the company's main publishing thrust is in its many new titles among self-help and leisure books, the how-to-do-it manuals that are perennial best-sellers. More than 50 new titles in this category are planned for release this year. Coles has an advantage in its ability to test-market new material in its own stores. Titles can then be published to satisfy this proven demand without the risks normally incurred by the publishing industry. The sheer

size of the Coles chain of bookstores is enough to absorb an economical print run.

Because of its central buying techniques and the leverage provided by its volume of stores, Coles can buy books in world markets at minimum cost. This enables the company to withstand inflationary pressures that would be damaging to the profits of a smaller organization.

FINANCE

Coles has current earnings that are sufficient to finance most aspects of its expansion program. The company uses its lines of bank credit for short-term financing as required, with supplemental capital needs being met from earnings. We recognize our obligations to shareholders, and will be giving due consideration to the matter of dividends at the appropriate time.

The bookselling industry provides the kind of inventory protection afforded nowhere else. Fully 40 percent of Coles inventory can be returned for full credit under the liberal terms prevailing in the industry. The advantages of such accommodation are obvious.

EXPANSION

With sales and earnings continuing at satisfactory levels, Coles' plans for expansion in 1975 call for the addition of 26 new stores. Five of these will be in the United States, the rest in Canada. Four Paper•bax outlets are included.

The company has solid expectations of success in these ventures. The locations have been selected with great care. Coles finds recurring opportunities for valuable downtown locations in cities across Canada, as well as in high-traffic shopping centres of the kind where many of the present Coles retail outlets are operating. The company has also established its capacity for generating exceptional sales and profit in strategically placed book stores in smaller communities.

The market for booksellers in English-speaking North America remains largely un-

profile of progress

tapped. There is a persistent shortage of book stores in both Canada and the United States, and it will be many years before market saturation is approached.

PERSONNEL

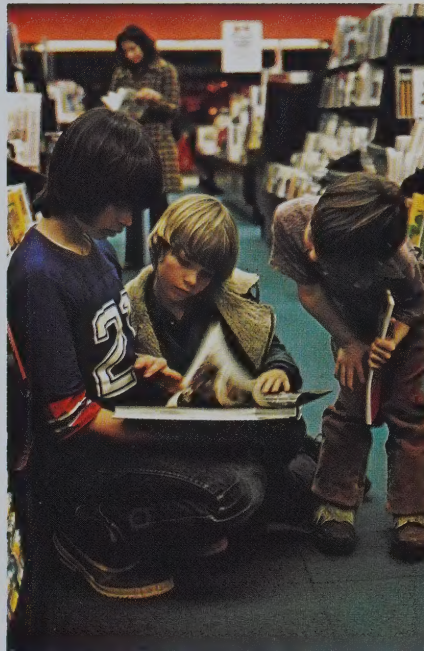
A forward looking company must always be ready to translate ideas into action. It must encourage new proposals and their conversion to practical performance. Coles is proud of its innovative marketing that has made the company North America's fastest growing chain of book stores.

The Coles management team is headed by executives with unusual length and depth of experience in the highly challenging book-selling industry. The executive team needs only nominal expansion to handle all foreseeable aspects of future growth. The strongly centralized head office operation is backed in the field by a group of seasoned District Managers who supervise day to day store operations. There is no large pool of experienced help available in the bookselling industry, so Coles conducts its own training programs to assure a continuing supply of competent staff. Candidates receive a thorough grounding in Coles philosophy, procedures and merchandising techniques.

LOOKING AHEAD

Company expectations in a time of economic uncertainty should be realistic, even cautious. Nevertheless, Coles looks forward to continued growth, with optimism based on its record of merchandising success and accelerating sales.

The printed word remains the No. 1 tool of information, recreational reading, and education. Coles' markets in the English-speaking world have barely been tapped, and the company has full confidence in its managerial and organizational strengths. Coles expects to keep on growing, avoiding complacency and keeping a watchful corporate eye on the marketplace.



growth at a glance.....

SALES.....

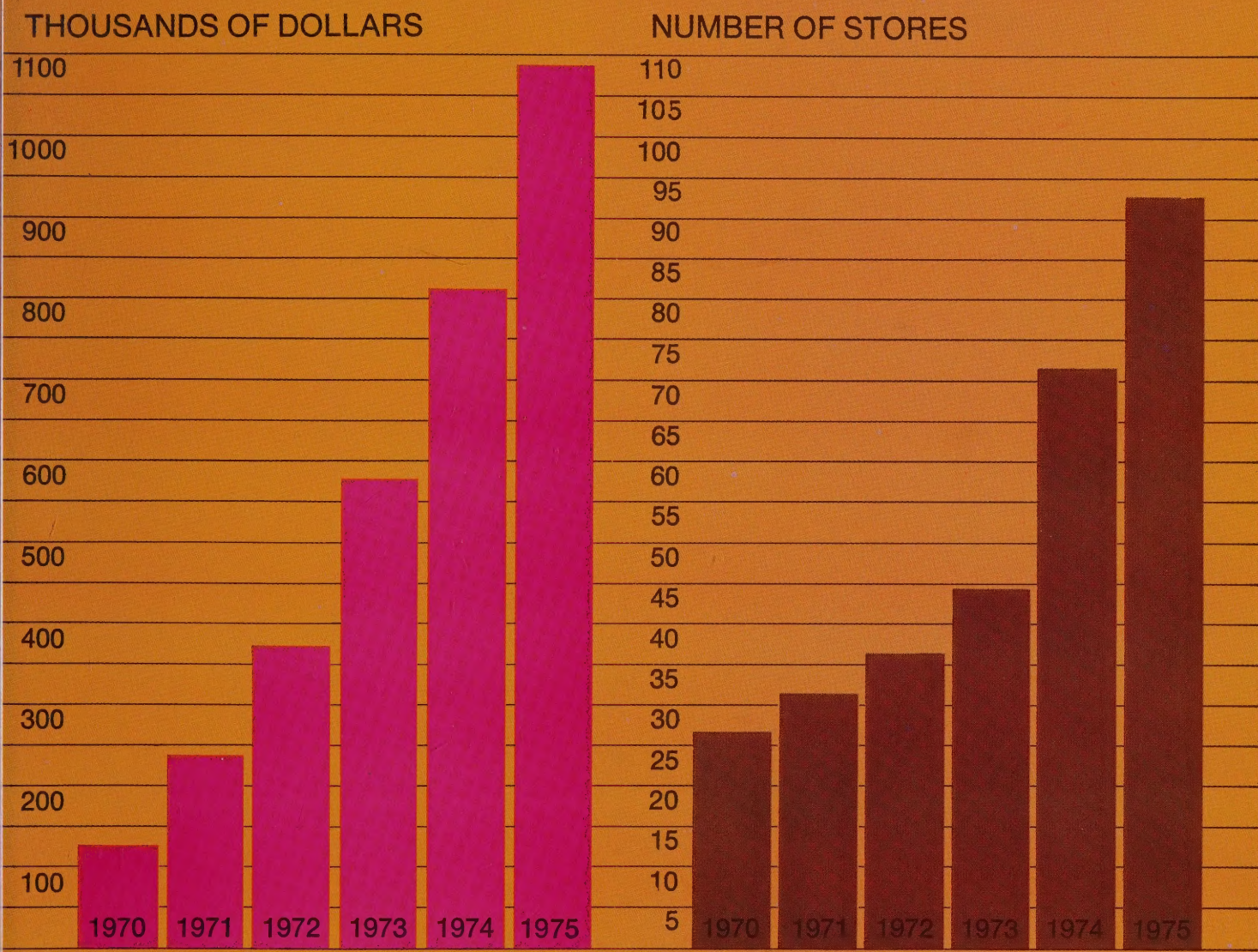
MILLIONS OF DOLLARS



Sales for the year ending January 31, 1975 reached \$21,911,000 an increase of 36.3% over the \$16,077,000 recorded in the previous year. Higher sales in both existing stores and new locations accounted for this substantial increase.



..EARNINGS.....STORES.....



Year after year Coles' earnings have consistently increased. Once again the upward trend continues with net earnings up 31.6% to \$1,078,000 from \$819,000 last year. Earnings per share rose from 56¢ to 74¢.

The number of Coles stores increased during the fiscal year from 72 to 93. Of the 21 new locations 9 were in the United States the remaining 12 in Canada including the pilot unit operated under the 'Paper•bax' concept.

COLES BOOK STORES LIMITED
CONSOLIDATED STATEMENT OF EARNINGS
FOR THE YEAR ENDED JANUARY 31, 1975

	1975	1974
INCOME:		
SALES	\$18,501,666	\$10,905,387
ASSOCIATE FEES AND OTHER INCOME	549,720	965,897
	<u>19,051,386</u>	<u>11,871,284</u>
OPERATING COSTS AND EXPENSES:		
COST OF GOODS SOLD, SELLING, GENERAL AND ADMINISTRATIVE EXPENSES EXCEPT FOR THE FOLLOWING:	16,299,320	9,943,330
INTEREST ON NOTE PAYABLE	21,124	10,382
DEPRECIATION AND AMORTIZATION	407,551	243,075
	<u>16,727,995</u>	<u>10,196,787</u>
EARNINGS BEFORE INCOME TAXES	<u>2,323,391</u>	<u>1,674,497</u>
INCOME TAXES:		
CURRENT	1,152,000	761,045
DEFERRED	93,000	94,369
	<u>1,245,000</u>	<u>855,414</u>
NET EARNINGS:	<u>\$ 1,078,391</u>	<u>\$ 819,083</u>
EARNINGS PER SHARE (Note 6)	<u>74¢</u>	<u>56¢</u>

consolidated statement of earnings and retained earnings

COLES BOOK STORES LIMITED
CONSOLIDATED STATEMENT
OF RETAINED EARNINGS
 FOR THE YEAR ENDED JANUARY 31, 1975

	1975	1974
BALANCE AT BEGINNING OF YEAR	\$ 1,535,797	\$ 765,475
NET EARNINGS	1,078,391	819,083
	<u>2,614,188</u>	<u>1,584,558</u>
 DEDUCT:		
COSTS OF PUBLIC FINANCING, NET OF INCOME TAXES	—	48,761
 BALANCE AT END OF YEAR	<u><u>\$ 2,614,188</u></u>	<u><u>\$ 1,535,797</u></u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

COLES BOOK STORES LIMITED
CONSOLIDATED BALANCE SHEET
AS AT JANUARY 31, 1975

	1975	1974
ASSETS		
CURRENT:		
SHORT TERM NOTES AT COST	\$ —	\$ 1,400,000
ACCOUNTS RECEIVABLE	243,280	315,259
INVENTORIES, VALUED AT LOWER OF COST AND NET REALIZABLE VALUE	7,127,965	4,555,901
PREPAID EXPENSES	27,621	28,787
	<u>7,398,866</u>	<u>6,299,947</u>
 EQUIPMENT AND LEASEHOLD IMPROVEMENTS, AT COST LESS ACCUMULATED DEPRECIATION (1975 — \$1,031,746; 1974 — \$749,645)	 3,175,649	 1,841,580
 OTHER ASSETS (Note 2)	 1,344,994	 1,337,384
	<u><u>\$11,919,509</u></u>	<u><u>\$ 9,478,911</u></u>

APPROVED ON BEHALF OF THE BOARD:

SIGNED *J. COLE, Director.*

C. COLE, Director.

consolidated balance sheet

LIABILITIES

CURRENT:

BANK INDEBTEDNESS (Note 3)

\$ 1,208,451

\$ —

ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

3,019,988

2,912,447

CURRENT INSTALLMENT ON NOTE PAYABLE

138,500

138,500

INCOME TAXES

450,582

362,616

4,817,521

3,413,563

NOTE PAYABLE

—

138,500

DEFERRED INCOME TAXES

314,000

217,251

SHAREHOLDERS' EQUITY

CAPITAL STOCK (Note 4)

AUTHORIZED:

2,000,000 COMMON SHARES WITHOUT PAR VALUE

ISSUED:

1,455,000 SHARES

4,173,800

4,173,800

RETAINED EARNINGS

2,614,188

1,535,797

6,787,988

5,709,597

\$11,919,509

\$ 9,478,911

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

consolidated statement of changes in financial position

COLES BOOK STORES LIMITED
CONSOLIDATED STATEMENT
OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED JANUARY 31, 1975

SOURCE OF FUNDS

	1975	1974
NET EARNINGS	\$1,078,391	\$ 819,083
ADD BACK CHARGES NOT REQUIRING FUNDS:		
DEPRECIATION AND AMORTIZATION	407,551	243,075
DEFERRED INCOME TAXES	96,749	94,369
FUNDS PROVIDED FROM OPERATIONS	1,582,691	1,156,527
NET PROCEEDS OF PUBLIC FINANCING	—	3,335,239
ISSUE OF COMMON SHARES ON ACQUISITION OF SUBSIDIARY COMPANY	—	789,600
INCREASE IN NOTES PAYABLE	—	138,500
DEFERRED INCOME TAXES OF ACQUIRED SUBSIDIARY	—	47,647
	<u>1,582,691</u>	<u>5,467,513</u>

APPLICATION OF FUNDS

ADDITIONS TO FIXED ASSETS	\$1,614,386	\$ 936,168
COSTS OF LEASES ACQUIRED	—	594,764
STORE OPENING COSTS	93,726	63,091
PUBLISHING RIGHTS ACQUIRED	41,118	184,063
REDUCTION IN NOTES PAYABLE	138,500	—
EXCESS OF COST OVER BOOK VALUE OF SUBSIDIARY ACQUIRED	—	534,684
	<u>1,887,730</u>	<u>2,312,770</u>
INCREASE (DECREASE) IN WORKING CAPITAL	(305,039)	3,154,743
WORKING CAPITAL (DEFICIENCY) BEGINNING OF YEAR	2,886,384	(268,359)
WORKING CAPITAL, END OF YEAR	<u>\$2,581,345</u>	<u>\$2,886,384</u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

notes

COLES BOOK STORES LIMITED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED JANUARY 31, 1975

1. ACCOUNTING POLICIES

The following is a summary of significant accounting policies followed in the preparation of the consolidated financial statements.

(a) BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its subsidiaries, Coles Publishing Company Limited and Coles The Book People! Inc., both of which are wholly owned.

(b) EXCHANGE TRANSLATION

The accounts of a United States subsidiary have been translated into Canadian dollars at par.

(c) INCOME TAXES

The Company follows the tax allocation method of providing for income taxes. Under this method, the timing differences between reported and taxable income result in deferred income taxes.

(d) GOODWILL

Goodwill is carried at cost and consists of the excess of cost over book value of a subsidiary acquired. No portion of the goodwill has been amortized.

(e) DEPRECIATION AND AMORTIZATION

Kind of Asset	Basis
Equipment — Stores	10% straight line.
Warehouse	20% diminishing balance.
Office	20% diminishing balance.
Leases	10% straight line.
Leasehold improvements	over term of lease.
Publishing costs	10% straight line.
Store opening costs	written off over a three year period, commencing in the year following the expenditures.

2. OTHER ASSETS

	1975	1974
At cost less accumulated amortization		
Cost of leases acquired	\$ 511,985	\$ 571,462
Publishing costs	154,671	148,080
Store opening costs	143,654	83,158
At cost		
Goodwill	534,684	534,684
	<u>\$1,344,994</u>	<u>\$1,337,384</u>

3. BANK INDEBTEDNESS

The current bank indebtedness of the Company and certain subsidiaries, is secured by a general assignment of their book debts.

4. STOCK OPTION PLAN

The Company has reserved 62,500 authorized but unissued common shares for its Stock Option Plan which provides for the granting to officers and key employees (excluding founders of the Company), options to purchase common shares of the Company at a price per share of not less than 90% of the market price at date of granting.

5. LEASE OBLIGATIONS

The annual rentals payable under leases for store locations and distribution facilities, exclusive of occupancy charges and additional rent payable based on a percentage of gross sales, for the years ending January 31, will be as follows:

1976 —	\$2,272,281	1979 —	\$2,077,462
1977 —	2,245,017	1980 —	1,963,128
1978 —	2,143,751		

6. EARNINGS PER SHARE

Earnings per share have been calculated based upon the number of shares outstanding at the end of the year.

If all outstanding stock options were exercised, and interest was imputed on the proceeds at reasonable rates, the effect would not significantly dilute the earnings per share.

7. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate direct remuneration paid to directors and senior officers amounted to \$267,277 for the current year and \$239,714 for the year ended January 31, 1974.

8. CONTINGENT LIABILITY

An action has been brought against the Company and one of its senior officers claiming damages of \$500,000, and an injunction by reason of the adoption by the Company of the name "Walden" for certain bookstores and publications. In the opinion of counsel the Company should be successful in its defence against this action.

auditors' report

**Soberman
Isenbaum
Colomby
& Nisker**

CHARTERED ACCOUNTANTS

45 ST. CLAIR AVENUE WEST, TORONTO, CANADA M4V 1K9

TO THE SHAREHOLDERS OF COLES BOOK STORES LIMITED

We have examined the consolidated balance sheet of Coles Book Stores Limited and subsidiary companies as at January 31, 1975, and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at January 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles, applied on a basis consistent with that of the preceding year.

Soberman, Isenbaum, Colomby & Nisker
Chartered Accountants

Toronto, Canada
March 12, 1975



the book people!



BRITISH COLUMBIA

Lougheed Mall
Burnaby
Orchard Park Shopping Centre
Kelowna
Richmond Centre
Richmond
Surrey Place Shopping Centre
Surrey
Park Royal Shopping Centre
West Vancouver
Pine Centre
Prince George
Cottonwood Corner
Chilliwack

ALBERTA

118 - 8th Avenue S.W.
Calgary
Calgary Market Mall
Calgary
Southcentre
Calgary
Bonnie Doon Shopping Centre
Edmonton
Shoppers Park Westmount
Edmonton
Londonderry Mall
Edmonton
Meadowlark Park
Edmonton

SASKATCHEWAN

South Hill Shoppers Mall
Prince Albert
Midtown Centre
Regina
Midtown Plaza
Saskatoon
Saskatoon Market Mall
Saskatoon

MANITOBA

Garden City Shopping Centre
Winnipeg
Polo Park Shopping Centre
Winnipeg

ONTARIO

Agincourt Mall
Agincourt
Georgian Mall
Barrie
Quinte Mall
Belleville

Bramalea City Centre
Bramalea
160 Main Street South
Brampton
Shoppers World
Brampton
*Burlington Mall
Burlington
Burlington Mall
Burlington
Lynden Park Mall
Brantford
Don Mills Shopping Centre
Don Mills
University Plaza
Dundas
Sherway Gardens
Etobicoke
Greater Hamilton Shopping
Centre
Hamilton
Lloyd D. Jackson Square
Hamilton
101 Princess Street
Kingston
200 King Street West
Kitchener
Fairview Park Shopping Centre
Kitchener
196 Dundas Street
London
White Oaks Shopping Centre
London
City Centre
London
Westwood Mall
Malton
Sheridan Mall
Mississauga
Square One Shopping Centre
Mississauga
Newmarket Shopping Centre
Newmarket
Upper Canada Mall
Newmarket
Hopedale Shopping Centre
Oakville
Oshawa Shopping Centre
Oshawa
146 Rideau Street
Ottawa
181 Sparks Street
Ottawa

Sheridan Mall East
Pickering
Dixie Plaza
Port Credit
Rexdale Plaza Mall
Rexdale
Shoppers World Albion Mall
Rexdale
Richmond Heights Shopping
Centre
Richmond Hill
Hillcrest Mall
Richmond Hill
Fairview Mall
St. Catharines
Pen Centre
St. Catharines
Station Mall
Sault Ste. Marie
Cedarbrae Plaza
Scarborough
Eglinton Square Shopping
Centre
Scarborough
Scarborough Town Centre
Scarborough
Eastgate Shopping Centre
Stoney Creek
75 Elm Street East
Sudbury
New Sudbury Shopping Centre
Sudbury
370 Bloor Street West
Toronto
910 St. Clair Avenue West
Toronto
299 Yonge Street
Toronto
726 Yonge Street
Toronto
Commerce Court
Toronto
Dufferin Mall
Toronto
Lawrence Plaza
Toronto
Shoppers World — Danforth
Toronto
Thornccliffe Market Place
Toronto
Yorkdale Shopping Centre
Toronto

Keskus
Thunder Bay
Fairview Mall
Willowdale
Northtown Plaza
Willowdale
Towne & Countrye Square
Willowdale
255 Ouellette
Windsor
Devonshire Mall
Windsor

QUEBEC

Cavendish Mall
Montreal

NEW BRUNSWICK

Champlain Place
Moncton

NOVA SCOTIA

Mic Mac Mall
Dartmouth

GEORGIA, U.S.A.

Cobb Center
Atlanta
Perimeter Mall
Atlanta
South Dekalb Mall
Atlanta

KENTUCKY, U.S.A.

Lexington Mall
Lexington

MARYLAND, U.S.A.

Golden Ring Mall
Baltimore

NEW YORK, U.S.A.

Como Mall
Buffalo

OHIO, U.S.A.

Fort Steuben Mall
Steubenville

WASHINGTON, U.S.A.

Everett Mall
Everett
Aurora Village Mall
Seattle

**Paper•bax location*

store locations



